Atlantic Pilotage Authority

Annual Report 2006

Canada

Corporate Governance

The Atlantic Pilotage Authority concurs with the *Guidelines on Corporate Governance in Crown Corporations and Other Public Enterprises*. Through this review the Authority's Board of Directors has built an effective process and structure for overseeing the direction and management of the Authority so that it effectively fulfills its mandate. Policies regarding the stewardship of the Authority, working with management, and the functioning of the Board are under continual review, and where necessary, changes are being implemented.

The *Canada Marine Act* allowed for the implementation of a part-time Chair and full-time Chief Executive Officer (CEO). The CEO is accountable to the Board of Directors and through his role ensures that the necessary consistency, expertise and daily administration tasks are fulfilled. Such direction is consistent with corporate governance.

The present Board structure of having a chair, two pilots, two shipping industry representatives and two public sector representatives ensures an excellent cross section of knowledge, shipping perspective and business acumen. The Board of the Authority is accountable to the Minister of Transport, Infrastructure and Communities for its decisions. The members are appointed by the Governor in Council and are accountable to the Government of Canada and public at large. Prior to the appointment of the two shipping representatives, names are solicited from the Canadian Shipowners Association and Shipping Federation of Canada and are subsequently given to the Minister of Transport, Infrastructure and Communities for his consideration.

The Authority fully endorses the make-up of the Board, management and staff. By having such an effective system in place, it believes that it is fulfilling its mandate, as well as meeting the requirements of good corporate governance.

Design: Colour Photography (Board and Management): Alex MacAulay Photography Printing: Transcontinental Printing

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Mandate

The mandate of the Atlantic Pilotage Authority is to establish, operate, maintain, and administer, in the interest of safety, an efficient pilotage service within the Atlantic region.

Mission

The Authority will accomplish its mandate by providing the necessary expertise and experience, associated with the appropriate technology, to meet the needs of the industry. The Authority is committed to maximizing the use of its resources/assets to meet the goals in a safe and environmentally responsible manner.

Vision

To continue to provide an effective pilotage service throughout the Atlantic region. In doing so, the Authority would maximize opportunities and benefit the various ports/districts and surrounding communities.

Corporate Headquarters

Atlantic Pilotage Authority
Cogswell Tower, Suite 910
2000 Barrington Street
Halifax, NS B3J 3K1 Canada

tel 902.426.2550
fax 902.426.4004
www.atlanticpilotage.com

On the cover: The growth in International trade, improved ship technology, and "just-in-time" shipping has made the world smaller that it has ever been. The juxtaposition of lighthouses at Peggy's Cove, Nova Scotia and Cornwall, United Kingdom indicates the symbolic distance between Europe and North America.

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Letter from the Chair & CEO

March 7, 2007

The Honourable Lawrence Cannon
Minister of Transport, Infrastructure and Communities
29th Floor, Tower "C"
Place de Ville
Ottawa, Ontario K1A 0N5

Dear Sir:

Pursuant to Section 150 of the *Financial Administration Act*, the Atlantic Pilotage Authority presents its Annual Report for 2006.

The Atlantic Pilotage Authority continues to meet its primary mandate of providing a safe and efficient pilotage service. The Authority continues to emphasize ongoing operational and financial consultations with the various port and user groups throughout the Atlantic Region.

The unexpected extended refit of the Floating Production, Storage and Offloading vessel operating at the Terra Nova oil field on the Grand Banks had a significant impact on the Authority in 2006. The level of activity and revenue for Placentia Bay, NL, was much less than anticipated. This temporary downturn was the major factor in the Authority experiencing a deficit for the year.

Early in 2006, the Authority commenced construction of a new fast pilot boat for Placentia Bay, NL. Unfortunately, the existing fast boat in Placentia Bay was declared a total constructive loss after an accident in late May, 2006. Because of the necessity to have two fast craft in the area, the Authority awarded a contract for the construction of a second new pilot vessel, with the expectation that it will be in service by the fall of 2007.

In May of 2006, the proposed amendments to the Authority's pilotage tonnage limitation came into effect. Other Pilotage Risk Management Methodology studies were completed, which resulted in recommendations that both the St. Croix River/Port of Bayside, NB, and the water approaches to Voisey's Bay, NL, become compulsory pilotage areas. The Authority will commence the regulatory process to effect these changes during 2007.

During 2006, the Authority's marine pilots completed 10,041 assignments, with 99.94% being handled without incident. The co-ordination and dispatch of pilots was achieved in a cost efficient and operationally effective manner by the Authority's centralized dispatch office located in Halifax, NS.

Along with overseeing the strategic direction of the Authority, its Members continue to actively participate in establishing effective corporate governance practices and maintaining an active regime of financial management and control.

It is, once again, our pleasure to report that the Atlantic Pilotage Authority continues to provide an exemplary service, in the safest and most economical manner, to the satisfaction of its users, and within the parameters of the *Pilotage Act*.

Respectfully submitted,

Anthony McGuinness
Chief Executive Officer

Tom Calkin
Chair
BSc.C.E., M.B.A., P.Eng., CMC

An important link in worldwide commerce.

Marine pilotage is a largely unknown service among the general public, but the requirement for pilotage is a common denominator among all major ports involved in the world shipping trade. For millennia, pilots have been providing their local knowledge to allow ships to trade in unfamiliar waters. The Authority's modern day pilots augment this local knowledge with expert ship-handling skills, modern bridge resource management, and the ability to utilize the most modern technological advancements. It is the responsibility of the Atlantic Pilotage Authority to provide highly qualified pilots in order to do its part in maintaining the vital trade routes that sustain the Canadian economy. Without well trained and skilled pilots and pilot boat crews, this "invisible" service would not be able to protect the Canadian marine environment, and to provide the level of service expected by customers.

In the global economy, goods that originate in far flung regions of the world are taken for granted by consumers. This report will illustrate some of the places throughout the world that are connected to Atlantic Canada through shipping.

Directors, Executive & Management

BOARD OF DIRECTORS: Captain Don Duffy, Pilot Representative, Public Landing, NB; Gerard Fitzpatrick, FCA, Public Sector Representative, Charlottetown, PE; Jim Stoneman, Shipping Industry Representative, Halifax, NS; Doug Tilley, Public Sector Representative, St. John's, NL; Captain Terrence Pittman, Pilot Representative, Sydney, NS; Yvon Dufour, Shipping Industry Representative, Dartmouth, NS. **INSET:** Tom Calkin, BSc.C.E., M.B.A., P.Eng., CMC, Chair, Bedford, NS.

EXECUTIVE & MANAGEMENT: Jackie MacPherson, Executive Assistant; Brian Bradley, CGA, Accountant; Captain P.T. Gates, Director of Operations; P.L. MacArthur, CMA, Chief Financial Officer; Captain R.A. McGuinness, Chief Executive Officer; Nancy Gordon, Administrative Manager; Tina Panopalis, Human Resources Administrator.

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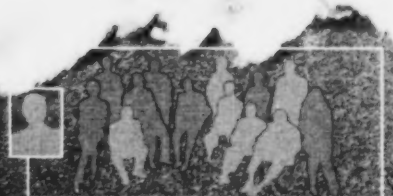

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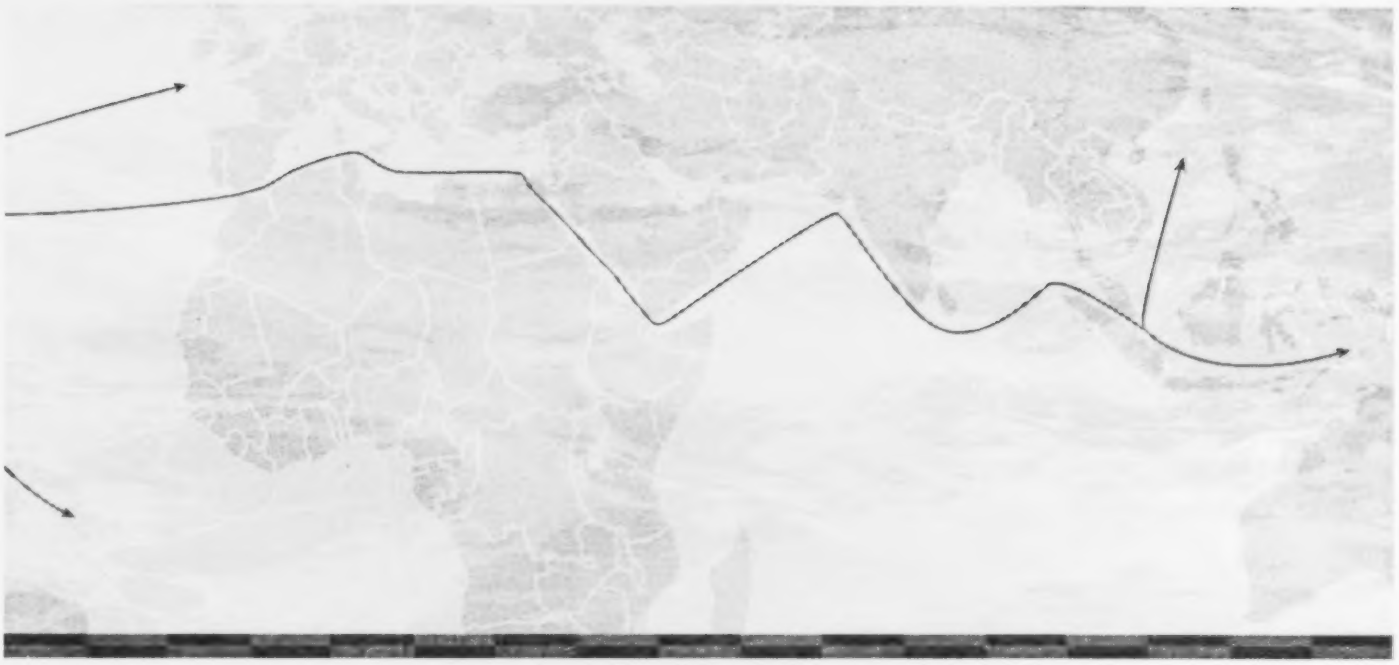


Strategic Direction

In 2003, the Board of the Authority provided six strategic directions identified as priority areas for the five year period from 2004 to 2008. The Authority has made progress in each of the areas identified. Some of the progress achieved in 2006 is noted below:

Governance

- Training on corporate governance is provided for new Board Members upon appointment.
- Committee structure is very active, particularly with Audit, PRMM, and Pilot Boat Committees.

Quality of Service

- Frequent meetings with stakeholders to determine the level of satisfaction with service provided.
- The Authority completed 99.44% of assignments without customer complaints by way of Non-Compliance forms in 2006.
- Pilot boat service continues to be upgraded, with two advanced pilot boats under construction in 2006 (to be completed in 2007).
- The training program for pilots includes regular refresher courses, there is improved training of boat crews and other personnel.

Financial Self-sufficiency

- Constantly review operations to determine if there are efficiencies to be gained elsewhere before increasing tariffs.
- Tariff adjustments are not imposed throughout all areas, but targeted to those ports that are projected not to be self-sufficient.

Safety of Environment

- Pilotage Risk Management Methodology is used to perform risk analysis for areas which have had changing conditions.
- Automatic Identification System was installed on pilot boats in 2006 to provide more accurate and timely information to pilots and boat crews.

Technology

- New dispatch software system substantially designed in 2006 to go into service in 2007.
- Provided specialized training on new technology, and partnered with others in the industry to develop co-operative training.

Human Resources

- Increased emphasis on Human Resources with a full time dedicated staff position, and support staff, devoted to this function.
- Held frequent Occupational Health and Safety committee meetings, and resolution of issues brought forward.

From Europe, Africa, Asia, and India, through the Suez and Panama canals, world trade today is interlinked and interdependent. The Atlantic Provinces are one such link, often being the first or last ports of call on the eastern seaboard of North America. It is the APA's responsibility to maintain this link by providing a safe and efficient pilotage service.

PORT OF "OLD DUTCH" JAKARTA

PORT OF SINGAPORE

AN INDONESIAN TEMPLE

Ministerial Review of Outstanding Pilotage Issues

In August 1998, the Minister of Transport asked the Canadian Transportation Agency (CTA) to conduct a forward-looking examination of the marine pilotage system in Canada. The impetus for this review stemmed from section 53 of the *Pilotage Act* which required the Minister to review certain specific issues within the current Pilotage regime which had been deferred in the *National Marine Policy* of 1995.

The CTA received written submissions, convened two national meetings and held regional consultations with interested parties. All sectors of the marine industry were represented at these sessions. The Agency provided its final report to the Minister on September 1, 1999.

The Canadian Transportation Agency Review contains twenty-one recommendations, all with which Transport Canada concurs in principle. Details on the Agency recommendations and the Departmental response thereto can be found in the Report to Parliament.

Operational Review and Consultations

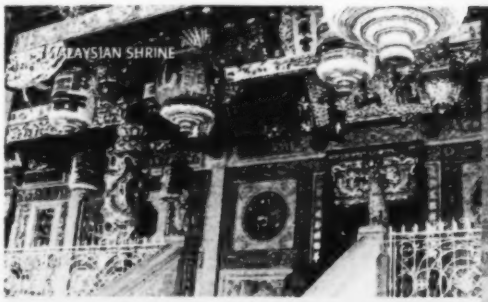
The Authority continues its mandate of open communication with all related parties within its jurisdictional areas of Atlantic Canada. Wherever possible, local port committee groups have been established to allow for round-table discussions on port related pilotage issues. Within these various advisory committees, all aspects of related pilotage issues are discussed, with the objective of obtaining improved efficiencies and cost reductions. Issues such as pilot strength, pilot boat contracts, replacement of existing pilot boats with more efficient vessels, pilot training, administrative enhancements, regulatory amendments, and tariff restructuring, are examples of the items discussed.

Within the framework of the Authority a pilotage resource advisory committee has been established, and has proved an excellent source for effective understanding and communication.

Pilotage Risk-based Methodology

The Pilotage Risk Management Methodology (PRMM), developed and endorsed by Transport Canada continues to be used in an effective manner. The risk-based assessment of vessel size limits and types of vessels subject to compulsory pilotage was concluded during 2004, and amendments to the Authority's regulations proposed. These proposed regulations were subject to a ministerial review after objections were received. The review was completed in 2005. The Minister provided direction to the Authority as a result of the review, and the Authority acted upon the Minister's recommendation by amending regulations regarding vessel size limits and vessels subject to compulsory pilotage in 2006.

The Authority continues to monitor all compulsory and non-compulsory areas to determine any change in factors and circumstances. In the event of such change, the Authority, in consultation with interested parties, will re-examine the situation, using the aforementioned methodology. During 2006, the Authority completed the evaluation of the facilitator's report with respect to a PRMM of the water approaches to the Voisey's Bay area in Labrador. The recommendations emanating from the evaluator's report were accepted by the Authority in 2006. Also in 2006, the Authority accepted the PRMM facilitator's recommendation that the St. Croix River/ Port of Bayside in New Brunswick become compulsory. Regulations will be amended in



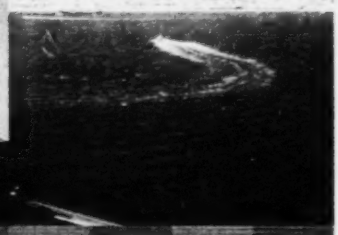
MALAYSIAN SHRINE

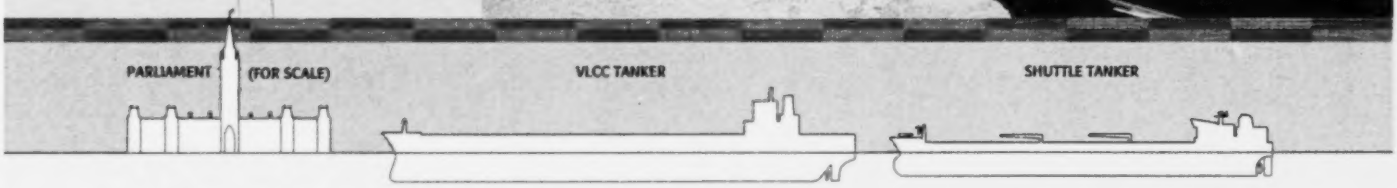
SUEZ CANAL, FROM SPACE

TRAVELLING THE SUEZ CANAL

DEPARTING FROM MUNDRA, NORTHEASTERN INDIA

LAST LAND BEFORE ATLANTIC CANADA – GIBRALTAR





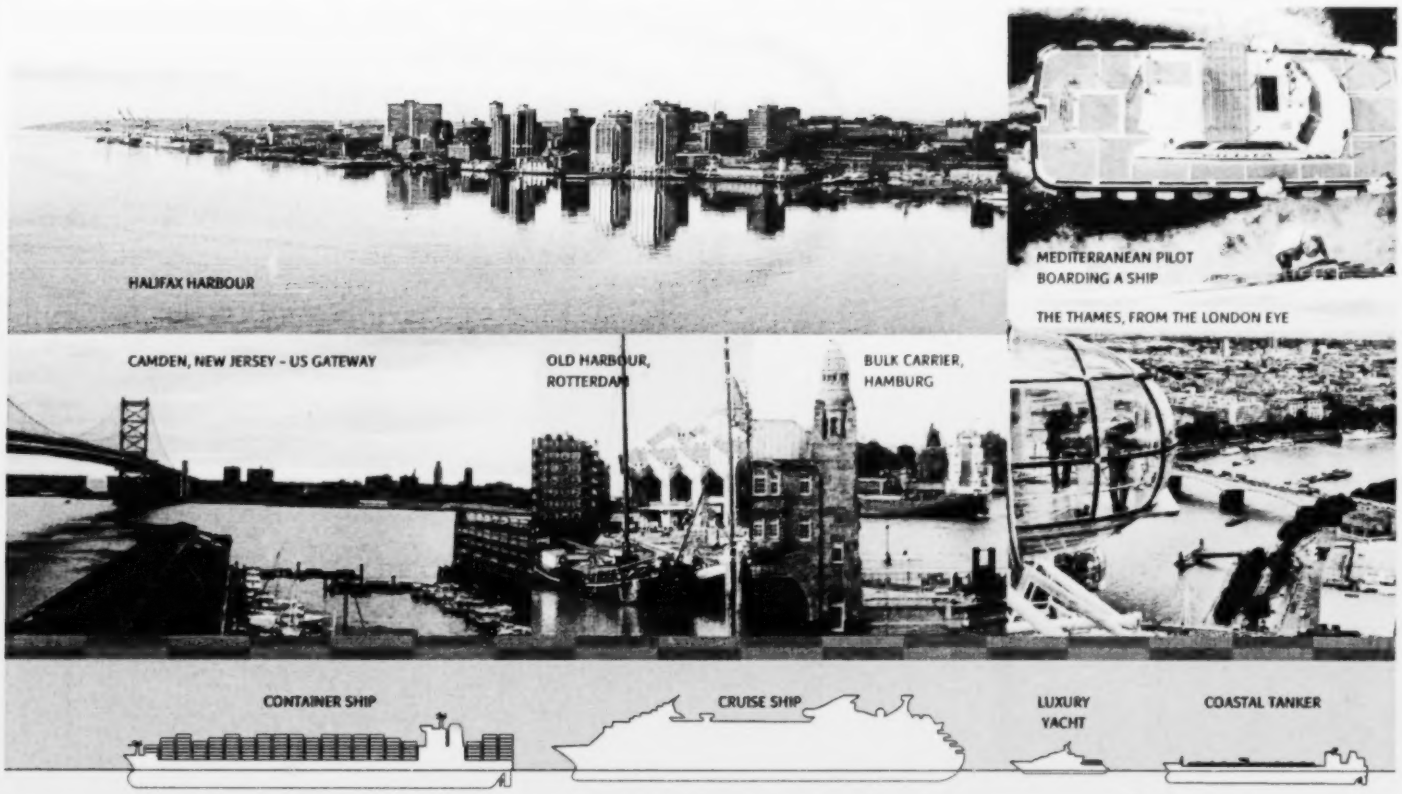
2007 to designate both Voisey's Bay and Bayside as compulsory pilotage areas. The Authority continues to monitor all areas within its jurisdiction to determine whether further PRMM assessments will be required.

Structured Methodology for Handling Complaints

The development of a non-compliance form by the Authority has proven to be effective as a structured method for handling complaints. The mechanism is designed to be as user-friendly as possible, and the goal of the Authority is to ensure that timely feedback is provided to the complainant. During 2006, the Authority received a total of 56 non-compliance forms for the 10,041 assignments performed, which means that 99.44% of assignments were performed without receiving a complaint form. The most common reason for a complaint to be submitted was due to a delay in an assignment. In many cases, the delay is caused by other factors beyond the control of the Authority, such as weather or delays caused by other port services. Upon investigation, it was determined that only 35 of the 56 complaints were caused by factors over which the Authority had control. When the factors beyond the control of the Authority are deducted from the total complaints, the percentage of complaint free assignments increases to 99.65%.

Status of Other Ministerial Recommendations

RECOMMENDATION	STATUS
The Authority must begin to report in its annual report on the pool of qualified pilot candidates.	*Because of the distances between pilotage areas no general pool of qualified candidates exists from which the Authority can draw. Pilot candidates that are hired must meet specific criteria for the applicable pilotage area.*
The Authority is to develop and implement a fair and reasonable system for assessing pilots' competence and quality of service. This assessment process will have to take place regularly and not less than every five years.	*An assessment of the currency of pilots' certification and training has been developed.*
A system should be developed by all interested parties for the early release of practical information with respect to safety incidents.	*Our reporting of shipping incidents in this report has been enhanced to provide a detailed understanding of the types of minor incidents. Further consultation with industry and pilot representatives is required to fulfill this recommendation.*



2006 The Year in Review

The Authority had a net loss before extraordinary items of 6.7% of total revenues for 2006. The net loss after extraordinary items was 5.0% of total revenues. The loss was caused primarily by a significant decline in revenue as compared to 2005 and as compared to budget.

Budgets are established during the development of the Authority's Corporate Plan, and are based on a forecast of vessel traffic for the year. For 2006, the Authority's actual revenue was $2.1 million below the budgeted revenue. The following areas were significantly below budget on revenue (expressed in thousands of dollars):

Area	Amount below Budget	Primary Reason for Shortfall
Placentia Bay, NL	$ 1,313	Temporary shut down of offshore oil field
St. John's, NL	$ 339	Regulatory amendment*
Halifax, NS	$ 301	Regulatory amendment*
Saint John, NB	$ 295	Temporary decline in oil and oil product shipments

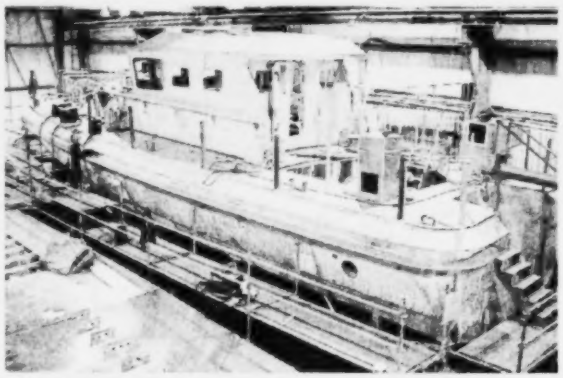
**Regulatory changes exempted offshore supply vessels under 5,000 gross tons from pilotage.*

On a positive note, Canso had a significant increase in business, resulting in revenue being $448 thousand over budget. The chart at right indicates the budgeted and actual revenue for each of the last five years.

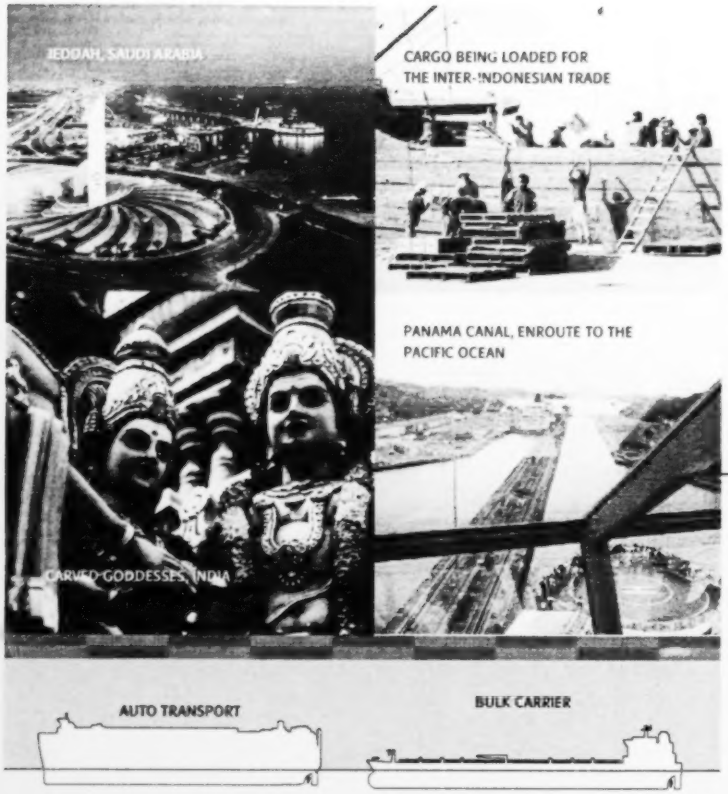
The Authority's overall expenditures for 2006 were 4.5% lower than budgeted. This budget variance was caused by several factors, most of which were related to the number of pilotage assignments being below budget.

The chart at right indicates the budgeted expenditures against the actual expenditures for 2006, expressed in thousands of dollars.

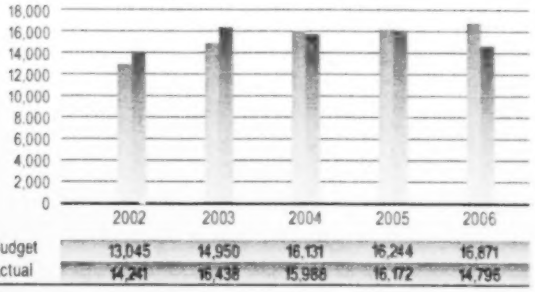
The Authority had a capital budget of $2.74 million for 2006. The largest capital investment was for the construction of a new pilot boat for Placentia Bay. When the budget was established, it was expected that the new boat, to be named "Avalon Pilot", would be in service during 2006. Due to delays in the project, the boat will not be completed until 2007. The Authority has also contracted to build a second identical boat, to be named the "Atlantic Pilot", to replace the vessel that was lost after being involved in an accident in May 2006. The Atlantic Pilot is also expected to be in service in 2007.



The Avalon Pilot nears completion, while in the foreground the deck cradle for the Atlantic Pilot can be seen.

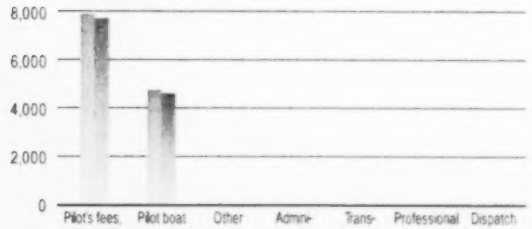

JEDDAH, SAUDI ARABIA
CARGO BEING LOADED FOR THE INTER-INDONESIAN TRADE
PANAMA CANAL, ENROUTE TO THE PACIFIC OCEAN
CARVED GODDESSES, INDIA
AUTO TRANSPORT
BULK CARRIER

Comparison of Budgeted and Actual Revenue 2002-2006, in thousands of dollars



	2002	2003	2004	2005	2006
Budget	13,045	14,950	16,131	16,244	16,871
Actual	14,241	16,438	15,988	16,172	14,795

Comparison of Budgeted and Actual Expenses 2006, in thousands of dollars



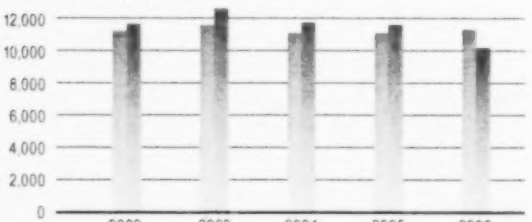
	Pilot's fees, salaries & benefits	Pilot boat operating costs	Other operating costs	Administration salaries	Transportation & travel	Professional & special services	Dispatch operations
Budget	7,916	4,785	1,340	859	691	501	419
Actual	7,774	4,539	1,076	672	576	415	415

The capital expenditure budget, and the actual expenditures, are indicated in the following chart.

Budgeted and Actual Capital Expenditures, 2006

in thousands of dollars	Budget	Actual
Pilot boat construction or purchase	2,500	1,853
Pilot boat refit and equipment	150	154
Computer and communications hardware	50	28
Computer software	25	41
Leasehold improvements	10	–
Wharf purchase or refit	–	19
	2,735	2,095

Budgeted and Actual Pilotage Assignments 2002-2006



	2002	2003	2004	2005	2006
Budget	11,454	11,797	11,005	10,948	11,456
Actual	11,806	12,510	11,848	11,690	10,041

The Authority had 10,041 pilotage assignments during the year, which was 12.4% under budget. The actual number of assignments declined from 2005 by 14.1%.

For several years prior to 2006, Placentia Bay had been producing the highest revenues of any port. The offshore oil field shutdown previously noted reduced the revenues to the point that Halifax was the highest revenue port in 2006. Halifax contributed 28.2% of overall revenue, while Placentia Bay declined to 22.4% of total revenue for the year. Canso is the third largest revenue contributor at 17.3%, while Saint John contributed 12.5%. For comparison purposes, in 2005, Placentia Bay had 27.4%, Halifax 25.0%, Canso 14.6%, and Saint John contributed 13.3% of the total revenue.

Most of the Authority's tariff charges for pilotage services are composed of two components, a basic (or fixed) charge for the port and a unit (or variable) charge that is based on a calculation of the size of the vessel. This calculation uses certain ship dimensions and the resulting product is known as the number of pilotage units in a vessel. The average ship size, expressed in terms of the pilotage units, may vary greatly from port to port. The tariff set for each port is based on the amount of traffic, the average size of ship, the length of the pilotage assignment, and other expenses inherent in the port.

During 2006, the Authority implemented tariff increases within eight of the sixteen compulsory pilotage areas. The increases ranged between 4% and 10% in individual ports, and the overall impact was a 4.25% increase in tariffs for the Authority as a whole. The remaining 8 compulsory ports did not have tariff increases. The Authority strives to provide an efficient, professional pilotage service at the lowest cost for the customer, while avoiding cross subsidization among ports.

Pilotage Areas, Pilots and Assignments

Pilotage Areas

There are 16 compulsory pilotage areas and many non-compulsory areas throughout the Atlantic region. The criteria for determining which ports should become compulsory are: degree of difficulty and hazard in the approaches and within the port itself; amount of vessel movement and maneuverability and the size of those vessels; design of wharves, slips, and actual space available for maneuvering; nature of cargo carried on board, (e.g. oil, gas, explosives, hazardous materials); environmental concerns and the preservation of the ecosystem.

Areas of Operation

The *Pilotage Act* defines the Authority's pilotage region as all Canadian waters in and around the provinces of Nova Scotia, Prince Edward Island, New Brunswick, Newfoundland and Labrador including the waters of Chaleur Bay in the Province of Quebec, south of Cap d'Espoir.

COMPULSORY PILOTAGE AREAS

New Brunswick	Saint John, Miramichi, Restigouche
Newfoundland and Labrador	Bay of Exploits, Holyrood, Placentia Bay, Stephenville, Humber Arm, St. John's
Nova Scotia	Bras d'Or Lakes, Halifax, Pugwash, Strait of Canso, Sydney
Prince Edward Island	Charlottetown, Confederation Bridge

NON-COMPULSORY PILOTAGE AREAS

The Atlantic Pilotage Authority provides pilotage service on request to areas where pilotage is not mandatory.
Some of these ports are:

New Brunswick	Bathurst, Caraquet, Belledune
Newfoundland and Labrador	Port aux Basques, Argentia, Clarenville, Marystown, Long Pond
Nova Scotia	Pictou, Sheet Harbour, Liverpool, Shelburne, Bridgewater
Prince Edward Island	Georgetown, Souris, Summerside
Quebec	Chandler

Pilots

The Atlantic Pilotage Authority employs professional pilots who are competent in all aspects of ship handling. They have a thorough understanding of the effects of wind, current and tidal influences. This is reflected in the expertise they demonstrate navigating and handling all sizes of vessels in proximity to land and within narrow channels and harbours. The value of a pilot is realized when they judge an approach correctly, anticipate accurately and react effectively. The professional abilities of pilots are integrated with navigational systems, both visual and electronic, and the support of information services. Such resources enable the Atlantic Pilotage Authority to provide a safe and efficient service to all vessels plying the waters of the Atlantic region.

Pilotage Assignments

	2006	2005	2004
COMPULSORY AREAS			
New Brunswick			
Saint John	1,334	1,623	1,555
Miramichi	10	9	24
Restigouche	101	92	105
Newfoundland and Labrador			
St. John's	1,027	1,584	1,592
Holyrood	55	80	97
Placentia Bay	999	1,283	1,391
Humber Arm	345	347	303
Stephenville	17	155	176
Bay of Exploits	115	119	117
Nova Scotia			
Halifax	3,313	3,759	4,090
Strait of Canso	1,453	1,257	1,004
Sydney	318	359	378
Bras d'Or	90	90	90
Pugwash	90	127	95
Prince Edward Island			
Charlottetown	220	163	142
Confederation Bridge	130	114	104
NON-COMPULSORY AREAS	424	529	585
Total	10,041	11,690	11,848

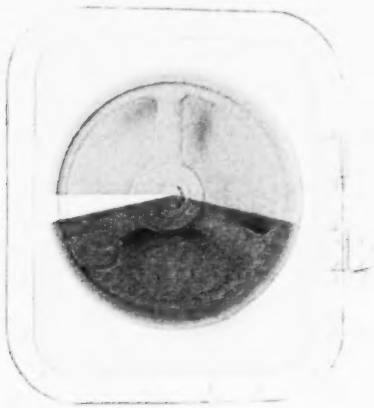
2006 Shipping Incidents

During 2006, there were 6 shipping incidents reported by the Authority's pilots. All incidents were minor in nature, and are described below:

TYPE OF INCIDENT	2006	2005
Contact with wharf	3	2
Contact with lock	2	0
Contact with buoy	1	2
Contact with port equipment	0	1
Contact with ship	0	1
Year end total	6	6

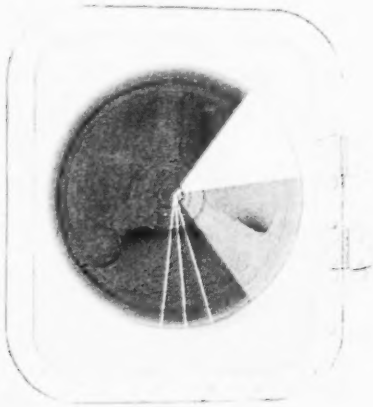
The Authority endeavours to provide a safe and efficient pilotage service in the Atlantic region. The total number of occurrences indicates 99.94% of the 10,041 pilotage assignments were incident-free.

Percentage of Pilotage Assignments by Province 2006



- Nova Scotia 54.1%
- Newfoundland and Labrador 26.8%
- New Brunswick 15.4%
- Prince Edward Island 3.7%

Percentage of Compulsory Pilotage Revenue by Port 2006



- Halifax 28.2%
- Placentia Bay 22.4%
- Canso 17.3%
- Saint John 12.5%
- Other 19.6%
  - *St. John's 5.1%*
  - *Sydney 3.5%*
  - *Humber Arm 3.3%*
  - *Other Compulsory 7.7%*

Comparative Review of Financial and Statistical Data

	2006	2005	2004
FINANCIAL DATA (000's)			
Total Revenue	$ 14,794	$ 16,172	$ 15,988
Operating Expenses			
Salaries, Fees and Benefits	10,061	10,136	9,704
Pilot Boats	3,898	4,391	3,761
Other	1,808	1,957	2,097
Total Operating Expenses	15,767	16,484	15,562
Net (Loss) Profit before Extraordinary Item	(973)	(312)	426
Extraordinary Gain	238	–	–
Net (Loss) Profit	$ (735)	$ (312)	$ 426
Revenue – Compulsory Areas			
Nova Scotia	$ 7,152	$ 6,808	$ 6,318
	49%	43%	40%
Newfoundland and Labrador	4,598	5,908	6,131
	31%	37%	39%
New Brunswick	2,033	2,281	2,303
	14%	14%	15%
Prince Edward Island	353	311	304
	3%	2%	2%
Revenue – Non-Compulsory Areas	491	693	710
	3%	4%	4%
Total Pilotage Revenue	$ 14,627	$ 16,001	$ 15,766
STATISTICAL			
Pilotage Units*	3,369,986	3,578,866	3,550,467
Pilotage Assignments	10,041	11,690	11,848
Average Number of Units per Assignment	336	306	300
Incidents**	6	6	9
% of Incident-Free Assignments	99.94%	99.95%	99.92%
Number of Personnel*			
Employee Pilots	45	44	43
Contract Pilots	10	10	11
Pilot Boat	13	13	13
Officers and Administrative	10	10	10
Dispatch	6	6	6

* Pilotage unit means a measurement of the size of the ship, and includes these dimensions: the length, breadth and moulded depth of a ship.
** Compilation of all maritime incident reports with or without damage filed by licensed pilots.
*** Full-time (or equivalent) personnel on strength as at December 31 of each year.

Management's Responsibility for Financial Reporting

The accompanying financial statements have been prepared by the Authority's management in accordance with Canadian generally accepted accounting principles consistently applied, using management's best estimates and judgements, where appropriate. Management is responsible for the integrity and objectivity of the information in the financial statements and annual report.

Management is also responsible for developing and maintaining a system of internal control which is designed to provide reasonable assurance that assets are safeguarded and controlled, transactions comply with relevant authorities and accounting systems provide timely, accurate financial information.

The Authority's management is responsible for conducting its affairs in compliance with the *Pilotage Act* and regulations, Part X of the *Financial Administration Act* and regulations, and the by laws of the Authority.

The Members of the Authority are responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. These responsibilities are delegated to the Audit Committee. The Audit Committee meets with management and the auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements. The financial statements and annual report are reviewed and approved by the Members of the Authority on the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the transactions and financial statements of the Authority in accordance with Canadian generally accepted auditing standards, and expresses her opinion on the financial statements. She has full and free access to the Audit Committee of the Authority, and her report follows.

R.A. McGuinness
Chief Executive Officer

P. MacArthur, CMA
Chief Financial Officer

Halifax, Canada
February 16, 2007

Auditor General of Canada
Vérificatrice générale du Canada

Auditor's Report

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of Atlantic Pilotage Authority as at December 31, 2006 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, and the by-laws of the Authority.

John O'Brien, CA
Principal
for the Auditor General of Canada

Halifax, Canada
February 16, 2007

ATLANTIC PILOTAGE AUTHORITY

Balance Sheet

As at December 31, 2006

in thousands	2006	2005
ASSETS		
Current		
Cash and cash equivalents (Note 4)	$ 1,888	$ 1,054
Accounts receivable, net (Note 4)	2,016	2,145
Prepaid expenses	50	48
	3,954	3,247
Long-term		
Investments (Note 4)	69	384
Segregated investments (Note 4)	887	887
Property and equipment, net (Note 5)	3,713	3,692
	4,669	4,963
	$ 8,623	$ 8,210
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 4)	$ 2,586	$ 1,573
Accrued obligation for employee severance benefits (Note 6)	66	–
	2,652	1,573
Long-term		
Accrued obligation for employee severance benefits (Note 6)	994	925
	3,646	2,498
EQUITY OF CANADA		
Contributed capital	2,305	2,305
Retained earnings	2,672	3,407
	4,977	5,712
	$ 8,623	$ 8,210

Commitments (Note 11)

The accompanying notes are an intergral part of these financial statements.

Approved by the Members of the Authority:

Member

Member

ATLANTIC PILOTAGE AUTHORITY

Statement of Operations and Retained Earnings

For the year ended December 31, 2006

in thousands	2006	2005
REVENUES		
Pilotage charges	$ 14,627	$ 16,001
Other income	167	171
	14,794	16,172
EXPENSES		
Pilots' fees, salaries and benefits	7,774	7,885
Pilot boats, operating costs	4,639	5,090
Staff salaries and benefits	1,337	1,300
Transportation and travel	590	635
Professional and special services	420	479
Amortization	275	322
Utilities, materials and supplies	234	257
Rentals	200	181
Training	166	213
Communications	132	122
	15,767	16,484
Net loss before extraordinary item	973	312
Extraordinary gain (Note 7)	238	–
Net loss for the year	735	312
Retained earnings, beginning of the year	3,407	3,719
Retained earnings, end of the year	$ 2,672	$ 3,407

The accompanying notes are an integral part of these financial statements.

ATLANTIC PILOTAGE AUTHORITY

Statement of Cash Flows

For the year ended December 31, 2006

in thousands	2006	2005
OPERATING ACTIVITIES		
Cash receipts from customers	$ 14,765	$ 15,957
Cash paid to employees and suppliers	(14,342)	(16,198)
Other income received	158	206
Employee severance payments	(4)	(85)
Cash flows from (used in) operating activities	577	(120)
INVESTING ACTIVITIES		
Purchase of investments	–	(1,459)
Proceeds from sale of investments	315	2,130
Purchases of property and equipment	(2,094)	(1,174)
Extraordinary item – insurance proceeds (Note 7)	2,036	–
Cash flows from (used in) investing activities	257	(503)
Increase (decrease) in cash and cash equivalents	834	(623)
Cash and cash equivalents, beginning of the year (Note 4)	1,054	1,677
Cash and cash equivalents, end of the year (Note 4)	$ 1,888	$ 1,054

The accompanying notes are an intergral part of these financial statements.

Notes to the Financial Statements

December 31, 2006
(in thousands of dollars)

1. OBJECTIVES AND ACTIVITIES

The Atlantic Pilotage Authority (the Authority) was established in 1972 pursuant to the *Pilotage Act*. The objects of the Authority are to establish, operate, maintain, and administer a safe and efficient pilotage service within designated Canadian waters. The Act provides that pilotage tariffs shall be fair, reasonable, and sufficient, to permit the Authority to operate on a self sustaining financial basis. Under the *Pilotage Act*, no payment to the Authority may be made under an appropriation by Parliament to discharge an obligation or liability.

The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*.

2. REGULATION OF PILOTAGE CHARGES

The approval process for setting tariffs for pilotage charges is set out in the *Pilotage Act*. The Authority, with the approval of the Governor in Council, makes regulations prescribing tariffs. The Authority must publish proposed tariffs in the *Canada Gazette* and any interested party who has reason to believe that a proposed tariff is prejudicial to the public interest may file a notice of objection, setting out the grounds therefor, with the Canadian Transportation Agency (CTA) within thirty days following publication of the proposed tariff.

The CTA must investigate the proposed pilotage charge set out in the notice of objection. Once its investigation is complete, the CTA must make a recommendation within 120 days following the receipt of the notice of objection, and the Authority must govern itself accordingly.

The tariffs may come into force 30 days after publication in the *Canada Gazette*. However, where the CTA recommends a pilotage charge that is lower than that prescribed by the Authority, the Authority is required to reimburse the difference between this charge and the charge recommended by the CTA, with interest, to any person who has paid the prescribed charge. The Governor in Council may vary or rescind a recommendation of the CTA.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

(a) Cash equivalents

Cash equivalents represent short-term, highly liquid investments. Cash equivalents are recorded at cost.

(b) Investments and segregated investments

Investments are recorded at cost. A write down of investments to market value is recorded for other than a temporary decline in their underlying value. Market value is based on the quoted price of the investments at year-end.

(c) Property and equipment

Property and equipment are recorded at cost. The cost of pilot boats under construction includes design, material and direct labour. Amounts included in pilot boats under construction are transferred to the pilot boat classification upon completion, and are then amortized. Amortization of property and equipment is calculated on a straight line basis and is based on the estimated useful life of the assets as follows:

Pilot boats	10 to 25 years
Furniture and equipment	5 to 10 years
Leasehold improvements	10 years

(d) Employee severance benefits

Employees are entitled to specified benefits on termination as provided for under collective agreements and conditions of employment. The Authority recognizes the cost of the future severance benefits over the periods in which the employees render services and the liability for these benefits is recorded in the accounts as the benefits accrue to employees. Management determined the accrued obligation for severance benefits using a method based upon assumptions and its best estimates. Changes to these estimates are charged or credited to the Statement of Operations in the period they are reassessed. These are the only obligations of the Authority for severance benefits that entail settlement of future payment.

(e) Contributed capital

Contributed capital consists of the estimated historical cost of capital assets obtained from Canada when the Authority was established and the capital assets financed from parliamentary appropriations.

(f) Pension plan

All employees are covered by the Public Service Pension Plan administered by the Government of Canada. Contributions to the plan are required from both the employee and the Authority. The Authority's contribution to the plan reflects the full cost of the employer contributions. This amount is based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the plan. These contributions represent the total pension obligations of the Authority. Contributions with respect to current service are expensed in the current period. Contributions with respect to past service benefits are expensed when paid. The Authority is not required to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

(g) Revenue recognition

Pilotage charge revenue is recognized when pilotage services are provided.

(h) Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

(i) Future accounting changes

In January 2005 the Canadian Institute of Chartered Accountants (CICA) issued the following two accounting standards that will impact the Authority:

Financial Instruments–Recognition and Measurement: This standard sets out criteria for the recognition, derecognition, measurement and classification of financial instruments. The Authority will be required to categorize its financial assets as held for trading, held to maturity, available for sale, or as loans and receivables. Financial liabilities will be classified as held for trading or as other financial liabilities. The related accounting treatment for these items will be dependent on the classification. Financial assets categorized as held for trading or available for sale are to be measured at fair value while financial assets categorized as held to maturity, loans and receivables are to be measured at amortized cost. Financial liabilities categorized as held for trading are to be measured at fair value while those categorized as other are measured at amortized cost.

Comprehensive Income: This standard requires certain gains and losses that would otherwise be recorded as part of net income to be presented in other comprehensive income until such time as it is considered appropriate for them to be recognized in net income. The Authority may be required to present a new financial statement titled Comprehensive Income to record such amounts until they are realized.

These new standards will come into effect for the Authority's 2007 fiscal year. The Authority is in the process of determining the impact these standards will have on its financial reporting.

4. FINANCIAL INSTRUMENTS

In accordance with the *Pilotage Act*, the Authority is only permitted to invest in Government of Canada Treasury bills and government guaranteed bonds. Investments are at fixed rates of interest until maturity. The Authority's investments are not considered to have any significant exposure to credit risk.

Segregated investments represent one fund established for capital asset replacement and the funding of employee severance benefits. The level in the fund is based upon the cash provided by operating activities in the previous year. There were no additions to or withdrawals from segregated investments in 2006 (2005 – nil).

The carrying value of investments approximates their fair value.

Accounts receivable and accounts payable are incurred in the normal course of business and are respectively due and payable on demand. The carrying value of these financial instruments approximates fair values because of their short maturity. There is no significant credit risk with accounts receivable as the *Pilotage Act* stipulates that the owner, master, and agent of a ship are jointly and severally liable for pilotage charges, and the Act provides a mechanism to withhold customs clearance if pilotage charges are unpaid.

	2006		2005	
	Carrying Value	Yield (%)	Carrying Value	Yield (%)
Cash	$ 1,811		$ 336	
Maturing within 3 months:				
Government of Canada Treasury bills	–		595	2.54
Government of Canada bonds	77	4.56	–	
Provincial bonds	–		123	4.72
Total cash and cash equivalents	$ 1,888		$ 1,054	
Maturing within 3 years:				
Government of Canada bonds	$ 301	3.90 - 4.71	560	3.33 - 4.71
Provincial bonds	581	3.19 - 5.02	369	3.05 - 5.02
	882		929	
Maturing beyond 3 years:				
Provincial bonds	74	3.44	342	3.44 - 4.21
	74		342	
Total investments and segregated investments	$ 956		$ 1,271	

5. PROPERTY AND EQUIPMENT

	2006			2005		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	$ 1	$ –	$ 1	$ 1	$ –	$ 1
Pilot boats	3,750	2,599	1,151	5,972	2,968	3,004
Pilot boats under construction	2,264	–	2,264	411	–	411
Furniture and equipment	919	682	237	832	636	196
Leasehold improvements	202	142	60	202	122	80
	$ 7,136	$ 3,423	$ 3,713	$ 7,418	$ 3,726	$ 3,692

6. EMPLOYEE SEVERANCE BENEFITS

The Authority provides severance benefits to its employees based on years of service and final salary. This benefit plan is unfunded and thus has no assets, resulting in a plan deficit equal to the accrued obligation. Information about the plan, measured at December 31, is as follows:

	2006	2005
Assumptions:		
Discount rate	4%	4%
Inflation rate	2%	2%
Minimum expected service	10 years	10 years
Age at retirement	60 years	60 years
Annual amounts:		
Accrued obligation for employee severance benefits, beginning of the year	$ 925	$ 889
Cost for the year	139	121
Benefits paid during the year	(4)	(85)
Accrued obligation for employee severance benefits, end of the year	$ 1,060	$ 925
Current portion	$ 66	$ –
Long-term portion	994	925
	$ 1,060	$ 925

7. EXTRAORDINARY GAIN

The Authority had previously recognized a pilot boat and its spare parts in property and equipment valued at $1,798. The pilot boat became inoperable due to an accident in May 2006. The Authority received proceeds of $2,036 from insurance and the sale of residual parts and equipment during the year. The excess of proceeds over the net book value has been recognized as an extraordinary gain in the year.

8. OPERATING CREDIT FACILITY

The Authority has an operating credit facility of up to $1,000 available at an interest rate not to exceed the prime lending rate. No amount had been drawn down on the credit facility at December 31, 2006 (2005 – nil). The credit facility is available to the Authority as required and has no renewal date or fixed term.

9. PENSION PLAN

Contributions to the Public Service Pension Plan consisted of:

	2006	2005
Contributions by the Authority	$ 820	$ 692
Contributions by employees	$ 351	$ 322

10. RELATED PARTY TRANSACTIONS

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties. These transactions are not of significance, and do not have a material effect on these statements.

11. COMMITMENTS

The Authority has entered into contracts for pilot boat services, office rentals, wharfage rentals, and construction of new pilot boats requiring the following minimum annual payments:

2007	$ 5,423
2008	341
2009	51
2010	16
2011	–
	$ 5,831

12. CONTINGENCIES

The Authority is subject to claims or possible claims by third parties. The outcome of these claims or possible claims is not determinable at this time. Management is of the opinion that the resolution of these matters will not have a material adverse impact on the Authority.